

Message Text

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C O N F I D E N T I A L CARACAS 12167

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E.O. 11652: GDS
TAGS: ENRG, PFOR, VE
SUBJECT: MINES MINISTER PUBLICLY COMMENTS ON TECHNOLOGY FEE

REF: A) CARACAS 12080; B) CARACAS 11511

1. BEGIN SUMMARY. MINES MINISTER VALENTIN HERNANDEZ, IN INTER-VEIW WITH "EL UNIVERSAL" ECONOMIC EDITOR PUBLISHED NOVEMBER 20, GAVE HIS FIRST PUBLIC EXPLANATION OF THE PROPOSED TECHNOLOGICAL SERVICE CONTRACTS. HE RELATED TECHNOLOGY COST TO THE REALIZED PRICE, AND THUS TO OFFTAKE. HE SAID SUCH COSTS WILL VARY BETWEEN 1.5 AND 1.7 PERCENT OF THE VALUE OF REALIZED PRICE OF EACH BARREL OF OIL PRODUCED (IN 1976 AND FOR DURATION OF CONTRACTS), WITH THE TOTAL 1976 TECHNOLOGY COST TO THE GOV NOT TO EXCEED BS. 700 MILLION. THE MINISTER COMMENTED THAT THE VENEZUELAN APPROACH HAS ADVANTAGES OVER THE MIDDLE EAST FORMULA OF 22 CENTS PER BARREL, IN THAT THE COST TO THE GOV WILL NOT BE FIXED, BUT WILL VARY IN RELATION TO THE MARKET PRICE.

2. THE ENGLISH LANGUAGE DAILY JOURNAL ON NOVEMBER 20 DESCRIBED THE MINISTER'S DESCRIPTION OF TECHNOLOGY PAYMENTS AS A NEW APPROACH. KIM FUAD, THE CARACAS UPI AND PETROLEUM INTELLIGENCE WEEKLY CORRESPONDENT, PUT OUT A WIRE STORY IN WHICH HE ASSUMED A REALIZED 1976 PRICE OF \$10 PER BARREL AND ESTIMATED TECHNOLOGY COSTS OF BETWEEN 15 AND 17 CENTS PER BARREL. OIL COMPANY SOURCES STATE, HOWEVER, THAT THERE IS NO NEW APPROACH. THEY SPECULATE THE MINISTER IS RESPONDING TO THE CRITICISM OF PEREZ LA SALVIA WHICH WE REPORTED IN REF A, AND PERHAPS LAYING THE GROUNDWORK FOR DEFENSE
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OF THE TECHNOLOGY CONTRACTS IN THE FORTHCOMING CONGRESSIONAL

DEBATE OVER THE COMPENSATION AGREEMENTS. END SUMMARY.

3. MINES MINISTER, VALENTIN HERNANDEZ, GAVE AN EXCLUSIVE INTERVIEW TO THE ECONOMIC EDITOR OF EL UNIVERSAL, PUBLISHED ON NOVEMBER 20, IN WHICH HE ATTEMPTED TO ALLEVIATE ANY DOUBTS THAT PEREZ LA SALVIA MAY HAVE PLANTED (REF A) THAT THE GOV IS BEING OUTFOXED BY THE OIL COMPANIES IN THE NATIONALIZATION NEGOTIATIONS. THE MINISTER BEGAN HIS INTERVIEW WITH THE COMMENT THAT "THE COUNTRY CAN BE TRANQUIL AND CONFIDENT THAT WE ARE UNDERTAKING NO ACTIONS THAT WILL ENDANGER THE SECURITY AND STABILITY OF THE PETROLEUM INDUSTRY". HE THEN STATED THAT VENEZUELA IS ADOPTING A MODEL FOR TECHNOLOGY PAYMENTS WHICH WILL DIFFER FROM THE 22 CENTS MIDDLE EAST FORMULA. THE VENEZUELAN MODEL WILL PAY AN AMOUNT THAT WILL VARY BETWEEN 1.5 AND 1.7 PERCENT OF THE REALIZED VALUE OF EACH BARREL OF PETROLEUM PRODUCED IN THE COUNTRY, THE MINISTER SAID. HE ADDED THAT THIS WOULD HAVE THE ADVANTAGE THAT VENEZUELA WILL NOT HAVE TO PAY FIXED SUMS, "BUT INSTEAD A PERCENTAGE BASED ON AN AMOUNT DERIVED FROM PETROLEUM SOLD AT MARKET PRICES." THE TOTAL COST TO THE GOV OF TECHNOLOGY WILL NOT EXCEED BS. 700 MILLION IN 1976, THE MINISTER NOTED.

4. THE MINISTER THEN EXPLAINED THAT THE GOV HOPES TO SIGN TWO YEAR TECHNICAL ASSISTANCE CONTRACTS WITH THE COMPANIES THAT HAVE BEEN OPERATING HERE, AFTER WHICH PETROVEN WILL EVALUATE WHAT THE COUNTRY HAS REALLY OBTAINED FROM THESE CONTRACTS. HE ADDED THAT THE GOV HAS OBTAINED AGREEMENTS WITH THE COMPANIES UNDER WHICH EACH ONE SIGNING A TECHNOLOGY CONTRACT WILL SEND FIVE HIGH LEVEL TECHNICIANS TO VENEZUELA AT THE BEGINNING OF 1976 TO ADVISE ON STRUCTURE AND FUNCTIONING OF THE TECHNICAL SERVICE, WHICH WILL BE CHanneled THROUGH A TECHNOLOGICAL INSTITUTE SOON TO BE ESTABLISHED.

5. REGARDING OIL SALES BY PETROVEN, HERNANDEZ SAID THAT SUCH ARRANGEMENTS WILL BE SEPARATE AND DISTINCT FROM THE TECHNOLOGY CONTRACTS. AT THE BEGINNING OF 1976, PETROVEN WILL SIGN CONTRACTS WITH THE OIL COMPANIES WHICH, IN PRINCIPLE, WILL BE FOR THE EQUIVALENT QUANTITY OF OIL THESE COMPANIES HAVE BEEN PRODUCING. PETROVEN WILL RESERVE A QUANTITY INITIALLY FOR DIRECT SALES TO CLIENTS UNDER WHAT HE CALLED "AGENT CONTRACTS". THESE CONTRACTS WILL INCLUDE CONFIDENTIAL

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A "SMALL" COMMISSION FOR CIF SALES. THERE WILL BE NO DISCOUNTS FOR SALES TO THE FORMER CONCESSIONAIRES.

6. WE HAVE CHECKED WITH SEVERAL OIL COMPANY CONTACTS TO DETERMINE IF, INDEED, THE GOV IS MOVING AWAY FROM THE SLIDING SCALE OF FEES FOR TECHNICAL SERVICE CONTRACTS (DESCRIBED IN REF B). ERNESTO SUGAR, A CREOLE DIRECTOR, IMPLIED THAT THE FEE ARRANGEMENT STILL STANDS. HE HYPOTHESIZED THAT THE MINISTER WAS RESPONDING TO THE

PUBLIC CIRITICISM OF PEREZ LA SALVIA (REF A), AND PERHAPS LYAING THE GROUNDWORK FOR DEFENSE OF THE COMPENSATION AGREEMENTS WHEN THEY ARE DEBATED BY THE NATIONAL CONGRESS. SUGAR SAID THAT IT IS INEVITABLE THAT CONGRESS WILL DIG INTO THE DETAILS OF THE TECHNICAL SERVICE AND OFFTAKE AGREEMENTS. THE MINISTER'S RELATING OF TECHNOLOGY COSTS TO A PERCENTAGE OF REALIZED PRICE CAN BE CONSTRUED AS ONE MEANS OF GIVING A BROADER PERSPECTIVE TO THE MATTER. SUGAR SAID THAT THE FIGURES ARE "IN THE BALLPARK".

7. ORVIL HORTON, THE PHILLIPS MANAGER, SAID THAT HE HAD CALLED HYDROCARBONS DIRECTOR AREVALO REYES AFTER READING THE NEWSPAPER STORY. REYES DECLINED TO GO INTO DETAILS OVER THE PHONE, BUT DESCRIBED THE INTERVIEW AS "HIGHLY INACCURATE". THE ARCO MANAGER, HUGH SHEFFIELD, HAD NOT INQUIRED ABOUT THE STORY. HE REPORTED THAT THE QUESTION DID NOT ARISE WHEN ARCO SIGNED ITS ACTA NOV. 20 SHEFFIELD NOTED THAT HIS COMPANY WOULD BENEFIT FROM AN ARRANGEMENT WHEREBY COMPANIES WOULD BE PAID A PERCENTAGE OF REALIZED PRICE RATHER THAN A FLAT 8 CENT PER BARREL FEE. IF THE REALIZED PRICE IS \$12 PER BARREL OR OVER, AS MIGHT BE THE CASE AS REPORTED IN CARACAS 12064, ARCO WOULD GET 18 CENTS PER BARREL AT THE LOWER 1.5 PERCENT FIGURE, WHICH SHEFFIELD SPECULATES WOULD BE THE PERCENTAGE FOR THE SMALLER COMPANIES. THUS, SHEFFIELD WOULD WELCOME THE "NEW APPROACH", AS IT IS CALLED BY THE DAILY JOURNAL IN REPORTING THE EL UNIVERSAL STORY.

8. COMMENT. PHILLIPS AND ARCO HAVE APPOINTMENTS IN THE MINISTRY NEXT WEEK TO BEGIN DETAILED NEGOTIATION OF THEIR TECHNICAL SERVICE CONTRACTS. IF THERE HAS BEEN A CHANGE, THEY WILL LEARN ABOUT IT THEN. WE WILL FOLLOW THIS MATTER CLOSELY. END COMMENT.
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